2001 Country Reports on Economic Policy and Trade Practices
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SPAIN

Key Economic Indicators
(Billions of U.S. dollars unless otherwise indicated)

	1999	2000	2001 1/
Income, Production and Employment:			
Real GDP (1995 Prices) 2/	538.4	484.7	487.6
Real GDP Growth (pct) 3/	4.0	4.1	3.0
GDP (At Current Prices)	599.3	558.3	580.7
GDP by Sector:			
Agriculture	21.1	18.3	19.1
Industry	120.0	109.3	113.7
Construction	44.5	44.6	43.5
Services	356.1	332.1	345.4
Government	57.7	54.1	56.2
Per Capita GDP (US$)	14,957	13,992	14,554
Labor Force (000s)	16,423	16,844	17,000
Unemployment Rate (pct)	15.9	14.1	12.7
Money and Prices (annual percentage growth):			
Money Supply (M2)	6.0	3.7	3.0
Consumer Price Inflation	3.0	4.0	3.3
Exchange Rate (PTA/US$ annual average)	156.3	180.678	185.0
Balance of Payments and Trade:			
Total Exports FOB 4/	111.4	113.7	127
Exports to United States 4/	4.8	5.5	6.4
Total Imports CIF 4/	146.3	153.4	171.0
Imports from United States 4/	7.9	8.0	9.0
Trade Balance 4/	-34.9	-39.7	-44.0
Balance With United States 4/	-3.1	-2.5	-2.6
External Public Debt	66.4	61.1	60.0
Fiscal Deficit/GDP (pct)	1.1	0.3	0.0
Debt Service Payments (Paid)	N/A	N/A	N/A
Gold and Foreign Exchange Reserves	39.8	35.2	36.0

Sources: Bank of Spain, Spanish National Institute of Statistics
1/ 2001 figures are all estimates based on available monthly data in June.

2/ GDP at factor cost. GDP appears lower in 2000 and 2001 due to exchange rate fluctuations.
3/ Percentage changes calculated in local currency.
4/ Merchandise trade. Spanish Customs.

1. General Policy Framework

Spain's economy continues to perform well. The Government of Spain estimates 3 percent GDP growth for the year 2001, a deceleration from the 4.1 percent growth in GDP for 2000. Thus far, growth continues to be broadly based and is supported by the services sector, agriculture, construction, consumer demand, and capital good investment. Growth prospects have been dampened in part due to the effects of the global economic slowdown.

Throughout the 1990s much of Spain's economic policy had focused on meeting Maastricht targets so that Spain could become one of the founding members of the euro. These policies have continued in the guise of the Stability Pact, which, if anything, has a bias toward even stricter fiscal policy than the preceding agreement. Together these policies have provided continuing benefits in the form of lower interest rates, which in turn have promoted investment, construction, and consumer demand. This increased economic activity has provided increased income and higher tax receipts, which have allowed Spain to handily meet government deficit/GDP targets. Government fiscal restraint, higher tax receipts, and lower interest on government debt, courtesy of lower euro interest rates, should allow the government's budget deficit/GDP ratio to fall to 0.4 percent in 2001. The government's overall debt/GDP ratio should fall to 60 percent in 2001.

Although high compared to EU averages, Spain's current unemployment rate of 12.7 percent is Spain's lowest level in over a decade. Employment growth in early 2001 was underwritten by changes in 2000 that provided flexibility in hiring practices. Recently released monthly unemployment figures show slight increases in unemployment starting in July 2001.

2. Exchange Rate Policy

The Spanish peseta/euro rate was fixed on January 1, 1999, at 166.386 pesetas to the euro. Average dollar/euro rate through July 2001 was 0.893 or 186.6 pesetas to the dollar. The rate in September 2001 was 1 euro equals $0.904

3. Structural Policies

Spain has eliminated tariff barriers for imports from other EU countries and applies common EU external tariffs to imports from non-EU countries. Similarly, Spain follows the U.S.-EU mutual recognition agreements in its application of certain nontariff regulations and conformity assessment procedures applied to certain goods from the United States.

Spain requires import licenses and imposes quotas on certain industrial products. While there are no quotas on U.S.-origin manufactured products, Spain still requires import documents for some goods, which are described below. Neither of the following documents constitutes a trade barrier for U.S.-origin goods:

> Import Authorization (*autorizacion administrativa de importacion*) is used to control imports which are subject to quotas. Although there are no quotas against U.S. goods, this document may still be required if part of the shipment contains products or goods produced or manufactured in a third country. In essence, for U.S.-origin goods, the document is used for statistical purposes only or for national security reasons;
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> Prior Notice of Imports (*notificacion previa de importacion*) is used for merchandise that circulates in the EU customs union area, but is documented for statistical purposes only. The importer must obtain the document and present it to the general register.

Importers apply for import licenses at the Spanish general register of Spain's secretariat of commerce or any of its regional offices. The license application must be accompanied by a commercial invoice that includes freight and insurance, the C.I.F. price, net and gross weight, and invoice number. License application has a minimum charge. Customs accepts commercial invoices by fax. The license, once granted, is normally valid for six months but may be extended if adequate justification is provided.

Not infrequently, U.S. products face rigorous application of import requirements. Goods that are shipped to a Spanish customs area without proper import licenses or declarations are subject to considerable delay, may run up substantial demurrage charges, and have recently been rejected outright. U.S. exporters should ensure, prior to making shipments, that the necessary licenses have been obtained by the importing party. Also, U.S. exporters should have their importer confirm with Spanish customs whether any product approvals or other special certificates will be required for the shipment to pass customs.

Current Investment Law complies with all EU regulations. Non-EU resident investors must obtain Spanish government authorization to invest in broadcasting (signatories to the WTO Telecoms Agreement are exempt from this requirement), gaming, air transport, or defense. EU resident companies (i.e. companies deemed European under article 58 of the Treaty of Rome) are free from almost all restrictions.

4. Debt Management Policy

Almost 30 percent of Spanish medium and long-term debt is held by non-residents. Approximately 21 percent of Spanish government debt is short-term (less than one year) and 79 percent is long-term (i.e. maturities greater than five years).

At the end of August 2001, international reserves at the Bank of Spain totaled 39.1 billion euros or $35.2 billion.

5. Significant Barriers to U.S. Exports:

In general, EU agreements and practices determine Spain's trade policies. Within the European Union, the European Commission has authority for developing most aspects of EU-wide external trade policy, and most trade barriers faced by U.S. exporters in EU member states are the result of common EU policies. Such trade barriers include: the import, sale and distribution of bananas; restrictions on wine exports; local (EU) content requirements in the audiovisual sector; standards and certification requirements (including those related to aircraft and consumer products); product approvals and other restrictions on agricultural biotechnology products; sanitary and phytosanitary restrictions (including a ban on import of hormone-treated beef); export subsidies in the aerospace and shipbuilding industries; and trade preferences granted by the EU to various third countries. A more detailed discussion of these and other barriers can be found in the country report for the European Union.

Import Restrictions: Under the EU's Common Agricultural Policy (CAP), Spanish farm incomes are protected by direct payments and guaranteed farm prices that are higher than world prices. One of the mechanisms for maintaining this internal support are high external tariffs that effectively keep lower priced imports from entering the domestic market to compete with domestic production. In compliance with the Uruguay Round agreement all import duties on agricultural products have been reduced by an average of 20 percent, though in sensitive sectors some tariffs remain at prohibitively high levels.

In addition to these mechanisms, the EU employs a variety of strict animal and plant health standards which act as barriers to trade. At times, these regulations end up severely restricting or prohibiting Spanish imports of certain plant and livestock products. One of the most glaring examples of these policies is the EU ban on imports of hormone-treated beef, imposed in 1989 with the stated objective of protecting consumer health. Despite a growing and widespread use of illegal hormones in beef production in the EU, including in Spain, the EU continues to ban U.S. beef originating from feedlots where growth promoters have been used safely and under strict regulation for many years. Despite two WTO rulings (original case and appeal) requiring the EU to remove the ban, the EU ban on imports of hormone treated beef remains in effect.

One important aspect of Spain's EU membership is how EU-wide phytosanitary regulations, and regulations that govern food ingredients, labeling and packaging impact the Spanish market for imports of U.S. agricultural products. The majority of these regulations took effect on January 1, 1993, when EU "single market" legislation was fully implemented in Spain. Agricultural and food product imports into Spain are subject to the same regulations as in other EU countries.

While many restrictions that had been in operation in Spain before the transition have now been lifted, for certain products the new regulations impose additional import requirements. For example, Spain requires any foodstuff that has been treated with ionizing radiation to carry an advisory label. In addition, a lot marking is required for any packaged food items. Spain, in adhering to EU-wide standards, continues to impose strict requirements on product labeling, composition, and ingredients. Like the rest of the EU, Spain prohibits imports that do not meet a variety of unusually strict product standards. Food producers must conform to these standards, and importers of these products must register with government health authorities prior to importation.

Faced with the loss of the Spanish feed grain market as a result of Spain's membership in the EU, the United States negotiated an enlargement agreement with the EU in 1987, which established a 2.3 million ton annual quota for Spanish imports of corn and specified non-grain feed ingredients and sorghum from non-EU countries. The Uruguay Round agreement effectively extended this agreement indefinitely.

As an EU member state, Spain must also abide by EU procedures for approving the commercialization of products generated with the aid of biotechnology. The EU's lengthy and non-transparent process for approving bioengineered agricultural products has halted U.S. corn exports to Spain. Due to the EU's failure to approve all but two transgenic corn varieties, U.S. corn exports to Spain have virtually been eliminated, costing U.S. exporters about $100-150 million per year. The figure for the entire EU would be somewhat higher. Unless the EU takes steps to lift its moratorium on approval of transgenic products and streamlines its biotech product approval process, U.S. exporters will continue to be unable to ship U.S. corn to Spain. The United States remains interested in maintaining access to the Spanish feed grain market and will continue to press the EU on this issue and is currently exploring the concept of providing USDA certified, identity preserved corn shipments, containing only EU approved varieties.

Telecommunications: Spain liberalized its telecommunications market beginning in 1998. Prior to this date, the government phased in competition in basic telephony through licenses granted to privatized second operator Retevision and to third operator Lince/Uni2 (France Telecom), in addition to incumbent operator Telefonica. Cable operators were allowed to provide basic telephony beginning in 1998, but only by using their own networks; that is, they could provide basic telephony by interconnecting with the Telefonica or Retevision networks. This, in combination with several other mitigating factors, such as bureaucratic obstacles at the municipal level, the arrival of digital satellite television, and problems with new entrants forging interconnection agreements that are unbundled, transparent, timely and cost-oriented, has resulted in a slow start for the establishment of the cable sector in Spain.

Digital television, especially via satellite, has emerged as a promising industry in the Spanish market. There are three digital television platforms, Via Digital, Canal Satellite Digital, and Onda Digital/Retevision (over a terrestrial network), which currently offer digital television programming. Spain's mobile telephony market has also experienced a very rapid growth in subscribers. The government granted four licenses for third generation mobile telephony in 2000, and six licenses for wireless local telephone services. New opportunities are emerging in advanced telecommunications services, including the internet and high-speed data transmission. Finally, the government established the Telecommunications Market Commission (CMT) as an independent regulatory authority to oversee all activity in this sector.

Government Procurement: Spain's Uruguay Round government procurement obligations took effect on January 1, 1996. Under the bilateral U.S.-EU government procurement agreement, Spain's obligations took effect also on January 1, 1996, except those for services which took effect on January 1, 1997. Offset requirements are common in defense contracts and some large non-defense related and public sector purchases (e.g. commercial aircraft and satellites).

Television Broadcasting Content Requirements: In 1999, the Spanish Parliament adopted legislation that incorporated the EU Television without Frontiers Directive and revised the 1994 Spanish law on television broadcasting. The 1999 law explicitly requires television operators to reserve 51 percent of their annual broadcast time for European audiovisual works. It also created an "investment quota," obliging television operators to devote 5 percent of their annual earnings to finance European feature length films and films for European television. This investment quota was further defined in new July 2001 legislation (60 percent of the investment quota must be spent on audiovisual works in one of Spain's official languages).

Motion Picture Screen Quotas and Dubbing Licenses: In 1997, the government adopted implementing regulations for the 1994 Cinema Law, which reserved a portion of the theatrical market for EU-produced films. Thanks to successful industry-government negotiations, the new regulations eased the impact of the 1994 law on non-EU producers and distributors in regard to screen quotas and dubbing licenses. The screen quotas finally adopted required exhibitors to show one day of EU-produced film for every three days of non-EU-produced film instead of the original ratio of one to two. In July 2001, the Spanish Parliament adopted new legislation that maintains the film screen quotas. The new law notes that it is possible that the screen quotas may be eliminated in five years.

Despite remaining protectionist elements, Spain's theatrical film system has been modified sufficiently in recent years so that it is no longer a major source of trade friction. In 1998, the Catalan regional government adopted a decree under its new law on language policy, which called for both dubbing and screen quotas in order to increase the number of films being shown in the Catalan language. Due to strong industry opposition, the regional government annulled the legislation in 2000.

Product Standards and Certification Requirements: Product certification requirements have been liberalized considerably since Spain's entry into the EU leading to increased transparency of process. National regulations in the telecommunications sector now conform to EU directives. CE registration in any EU member state is recognized in Spain, which shortens the approval process particularly for telecom and medical equipment. There is still some uncertainty as to whether the earlier exemption from homologation and certification requirements for equipment imported for military use is still valid.

Pharmaceuticals and drugs still must go through an approval and registration process with the Ministry of Health requiring several years unless previously registered in an EU member state or with the London-based EU pharmaceutical agency, in which case the process is shortened to a few months. Vitamins are covered under this procedure; however, import of other nutritional supplements is prohibited, and they are dispensed only at pharmacies. Spanish authorities have been cooperative in resolving specific trade problems relating to standards and certifications brought to their attention. The U.S.-EU Mutual Recognition Agreement, when fully implemented, will permit certain conformity assessments (e.g., product tests) to be performed in the United States to EU requirements. This should improve market access, reduce costs, and shorten the time required to market certain U.S. products in the EU.

Aviation: Under the "Open Skies" aviation agreements that the United States has with most EU member states, there are no restrictions on bilateral routes, capacity or pricing. Spain is one of a few member states without an Open Skies agreement.

6. Export Subsidies Policies

Spain aggressively uses "tied aid" credits to promote exports in Latin America, the Maghreb, and China. Such credits reportedly are consistent with the OECD arrangement on officially supported export credits.

Total Spanish agricultural exports in 2000 totaled $16.4 billion. While the majority, typically 75 percent, of Spain's agricultural trade is confined to markets within the EU, some of Spain's exports are subsidized with EU funding and compete with the United States in third-country markets. Most of this trade is destined for Eastern Europe or North Africa. Spanish products receiving the most EU export funding include sugar, rice, wine, red meat, and dairy products. Spain generally receives about $200 million annually in EU funds to directly subsidize agricultural exports (1999 = $222.2 million, 2000 = $194.4 million). This export subsidy support is minor when compared to the $5.5-6.0 billion of domestic support Spain receives annually under the Common Agricultural Policy (CAP).

The Spanish government has indicated that it is likely to provide financial support to Airbus for the development of the A380 megaliner. The terms of its financial support are not available at present.

7. Protection of U.S. Intellectual Property

Spanish patent, copyright, and trademark laws all approximate or exceed EU levels of intellectual property protection. Spain is a party to the Paris, Berne, and Universal Copyright Conventions and the Madrid Accord on Trademarks. Government officials have said that their laws reflect genuine concern for the protection of intellectual property.

In 1992, Spain enacted a modernized Patent Law, which increases the protection afforded patent holders. With this law, Spain's pharmaceutical process patent protection regime expired and product protection took effect. Given the long (10 to 12 years) research and development period required to introduce a new medicine into the market, industry sources point out that the effect of the new law will not be felt until 2002 or 2003. U.S. pharmaceutical manufacturers in Spain complain that this limits effective patent protection to approximately eight years and would like to see the patent term lengthened. Of at least equal concern to the U.S. industry is the issue of parallel imports, i.e. lower-priced products manufactured in Spain that are diverted to northern European markets where they are sold at higher prices. U.S. companies have suffered losses as a result. In 2000, the government introduced an amendment to Article 100 of the Medicine's Act in an attempt to address the issue, but it has not resolved the problem.

Spain's Trademark Law incorporates by reference the enforcement procedures of the Patent Law, defines trademark infringements as unfair competition and creates civil and criminal penalties for violations. National authorities seem committed to serious enforcement efforts and there continue to be numerous civil and criminal actions to curb the problem of trademark infringement. To combat this problem in the textile and leather goods sector, the government began to promote the creation and sale of devices to protect trademark goods and to train police and customs officials to detect counterfeit products more effectively.

Spain further revised its patent and trademark laws in 2001 to facilitate an easier application and approval process, increase consumer protection, incorporate new technology into procedures, and further synchronize Spanish laws with modern EU regulations and other multilateral agreements. Major changes to the system, to be implemented fully by July 2002, will allow applicants to enjoy a 15 percent discount on fees using electronic applications, to apply for multiple classes of trademarks and patents with a single application, and to be informed earlier of the chances of approval. Changes also include increased minimum fines and punishments for trademark violations, more legal recourses for trademark and patent holders, and allowing consumer protection groups to participate in the application process. Spain has also introduced the concept of a 'notorious trademarks', well-known trademarks with high-volume sales and value which will enjoy new special protections, as well as including protections against third-party use of a registered trademark in web domains. In October 2001, the Spanish Patent Office (OEPM) was authorized to conduct preliminary examinations of international patents, the only office to accept applications in the Spanish language.

In September 1999, in a trademark case in which a well-known U.S. apparel manufacturer complained about infringement of its brand name, the Spanish Supreme Court handed down a decision denying it the right to continue marketing its products under its trademark name in Spain. The Spanish Constitutional Court has accepted the case for review. A decision is still pending.

Spanish Copyright Law provides a solid framework for intellectual property rights protection of movies, videocassettes, sound recordings, and software. It includes provisions that allow for unannounced searches in civil lawsuits and searches to take place under these provisions. Spain has a low incidence of motion picture, i.e. video, and audiocassette piracy.

The Spanish government prohibits the running of cable across public thoroughfares and also strictly enforces the Copyright Law that stipulates that no motion picture can be shown without authorization of the copyright holder.

Software piracy has periodically been a serious problem for Spain, leading to its inclusion on the Special 301 "watch list" in 1999. Measures instituted by the Spanish Government to improve property rights for software in recent years led to Spain's removal from the Special 301 list in 2001.

8. Worker Rights

a. The Right of Association: All workers except military personnel, judges, magistrates and prosecutors are entitled to form or join unions of their own choosing without previous authorization. Self-employed, unemployed, and retired persons may join but may not form unions of their own. There are no limitations on the right of association for workers in special economic zones. Under the constitution, trade unions are free to choose their own representatives, determine their own policies, represent their members' interests, and strike. They are not restricted or harassed by the government and maintain ties with recognized international organizations.

b. The Right to Organize and Bargain Collectively: The right to organize and bargain collectively was established by the workers statute of 1980. Trade union and collective bargaining rights were extended to all workers in the public sector, except the military services, in 1986. Public sector collective bargaining in 1989 was broadened to include salaries and employment levels. Collective bargaining is widespread in both the private and public sectors. Sixty percent of the working population is covered by collective bargaining agreements although only a minority are actually union members. Labor regulations in free trade zones and export processing zones are the same as in the rest of the country. There are no restrictions on the right to organize or on collective bargaining in such areas.

c. Prohibition of Forced or Compulsory Labor: Forced or compulsory labor is outlawed and is not practiced. Legislation is effectively enforced.

d. Minimum Age for Employment of Children: The legal minimum age for employment as established by the workers statute is 16. The Ministry of Labor and Social Security is primarily responsible for enforcement. The minimum age is effectively enforced in major industries and in the service sector. It is more difficult to control on small farms and in family-owned businesses. Legislation prohibiting child labor is effectively enforced in the special economic zones. The workers statute also prohibits the employment of persons under 18 years of age at night, for overtime work, or for work in sectors considered hazardous by the Ministry of Labor and Social Security and the unions.

e. Acceptable Conditions of Work: Workers in general have substantial, well defined rights. A 40 hour workweek is established by law. Spanish workers enjoy 14 paid holidays a year (12 assigned by central government and 2 by autonomous authorities) and a month's paid vacation. The employee receives his/her annual salary in 14 payments: one paycheck each month and an "extra" check in June and in December. The minimum wage is revised every year in accordance with the consumer price index. Government mechanisms exist for enforcing working conditions and occupational health and safety conditions, but bureaucratic procedures are cumbersome.

f. *Rights in Sectors with U.S. Investment:* Conditions in sectors with U.S. investment do not differ from those in other sectors of the economy.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 2000

(Millions of U.S. Dollars)

Category		Amount
Petroleum		149
Total Manufacturing		8,603
Food & Kindred Products	1,593	
Chemicals & Allied Products	1,832	
Primary & Fabricated Metals	1,277	
Industrial Machinery and Equipment	123	
Electric & Electronic Equipment	1,020	
Transportation Equipment	1,838	
Other Manufacturing	921	
Wholesale Trade		1,608
Banking		2,096
Finance/Insurance/Real Estate		1,176
Services		559
Other Industries		370
TOTAL ALL INDUSTRIES		14,561

Source: U.S. Department of Commerce, Bureau of Economic Analysis.